

## Recovery begins for the Hungarian economy

Based on the fresh GDP print, the Hungarian economy started its recovery phase in the third quarter of 2023. We expect the strong quarterly growth to continue in the final quarter, although this year overall remains a lost one



As expected, the Hungarian economy has now started on the road to recovery from the cost of living crisis

# 0.9%

## GDP growth in Q3 (QoQ, swda)

ING forecast 1.1% / Previous 0.0%

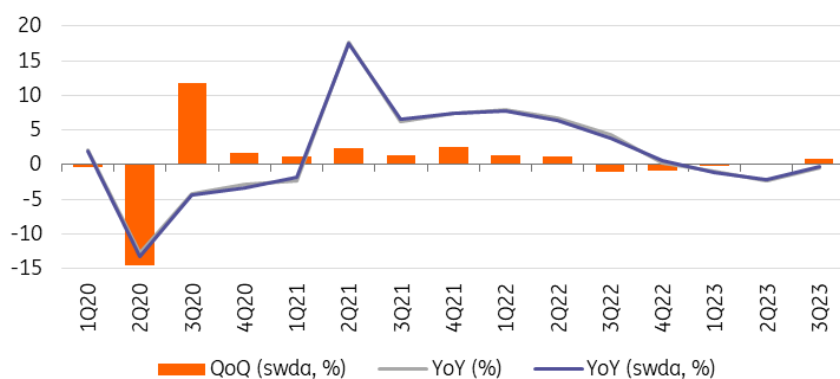
As expected, the Hungarian economy has started its recovery period from the cost of living crisis. Compared with the previous quarter, GDP rose by 0.9%, roughly in line with expectations. However, this was still not enough to bring the volume of gross domestic product back to the level of a year earlier. Specifically, the year-on-year index was -0.4%. In addition to the new data, the Hungarian Central Statistical Office (HCSO) also made some revisions to the time series. As a result, the Hungarian economy stagnated in the second quarter rather than contracting as previously

estimated. In this respect, the technical recession was somewhat shorter than previously known.

As the HCSO does not provide detailed figures in its preliminary data release, all we know is that the main contributors to the year-on-year decline were industry and services. However, it would have been much better to know which sectors were behind the strong quarter-on-quarter rebound.

In this regard, our view is unchanged. Based on high-frequency data, we expect the detailed GDP release to show us positive contributions from industry, construction and agriculture. When it comes to the expenditure side, despite the rather limited information available, our assessment of the structure of the economy has been confirmed. This means that it is mainly the export-oriented sectors that led the Hungarian economy’s rebound in the third quarter. Meanwhile, inflation is eroding the purchasing power of households and therefore dragging consumption. While investment is being held back by the fiscal situation (postponements of public investments) and the high interest rate environment, which held back corporate and household credit activity.

## Hungarian GDP growth



Source: HCSO, ING

The volume of GDP contracted by 1.2% in the first nine months of 2023, but given that the performance of the Hungarian economy could continue to improve over the rest of the year, the fourth quarter could still improve the overall picture for this year. However, it is already clear that 2023 will be a lost year – a recessionary year.

Without knowing the exact structure of the economic performance in 2023 – which we are going to see on 1 December, when HCSO is releasing the detailed GDP data – we decided to leave our short-term outlook unchanged. We see a more-or-less similar, around 1% QoQ GDP growth in the fourth quarter, driven by the export activity and some recovery in the domestic demand. As a result, for the year as a whole, we expect GDP to contract by 0.5% and we see some minor downside risks.

As we see a significant quarterly GDP growth in the fourth quarter, the (statistical) carry-over effect will be positive in 2024. This means that a positive year-end could already lay the foundations for economic growth next year. In addition, consumption change could slowly turn positive in the coming quarters, in line with the gradual but slow recovery in consumer confidence and the parallel positive real wage growth. In addition, in a declining interest rate environment credit activity could also start to recover.

However, these positive impacts will be few and far between to ensure that next year brings meaningful economic growth. Access to EU funds will be crucial, especially in the current tight fiscal situation. In our base case, we expect that an agreement will be reached this year and Hungary will have partial access to the Cohesion Fund. The start of the drawdown of funds could be reflected in next year's economic performance, especially in investment activity. In this case, GDP growth is expected to be around 3%. However, in the absence of an EU deal, we would be happy if the economic activity is able to reach the 1-2% range.

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